

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name St. Louis Housing Commission	County Gratiot
Fiscal Year End June 30, 2006	Opinion Date August 9, 2006	Date Audit Report Submitted to State February 14, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

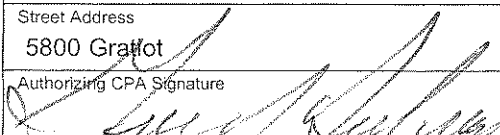
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None required	
Other (Describe)	<input type="checkbox"/>	None required	
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number 989-799-9580	
Street Address 5800 Gratiot		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 	Printed Name Gerald Deslover	License Number 1101007126	



Saint Louis Housing Commission

St. Louis, Michigan

Financial Statements and Single Audit Report

For the Year Ended June 30, 2006



REHMANN ROBSON

Certified Public Accountants

ST. LOUIS HOUSING COMMISSION

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

August 9, 2006

Board of Directors
St. Louis Housing Commission
St. Louis, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the **St. Louis Housing Commission**, as of and for the year ended June 30, 2006, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of **St. Louis Housing Commission**, as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006 on our consideration of the **St. Louis Housing Commission's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit

performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***St. Louis Housing Commission's*** basic financial statements. The financial data schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office and Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organization*, and is also not a required part of the financial statements of the Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The management discussion and analysis of the St. Louis Housing Commission's financial statements includes a narrative overview and discussion of the financial activities of the Housing Commission for the year ending June 30, 2006. Since the MD&A is designed to present basic financial information in a narrative, executive summary format, the reader is encouraged to consider the information presented here in conjunction with the Housing Commission's audited financial statements.

Financial Highlights

- Assets exceed liabilities at the close of the most recent fiscal year by \$1,692,426 (net assets). Of this amount, \$409,513 may be used to meet the Housing Commission's continuing obligations.
- Capital Assets increased \$22,449 without the implication of accumulated depreciation.
- Housing Commission revenues increased by \$29,931 excluding Capital Funds dollars.
- The collective effect on operating expense of 2005 vs. 2006 was only a .2% decrease.
- Total revenues decreased by \$103,869 due to the decrease in capital fund activity.

St. Louis Housing Commission's Statement of Net Assets

	Business-type Activities	
	2005	2006
Current and other assets	\$ 489,847	\$ 483,635
Capital assets	1,423,180	1,282,913
Total assets	1,913,027	1,766,548
Accounts payable and accrued expenses	62,428	52,152
Non-current liabilities	15,435	21,970
Total liabilities	77,863	74,122
Net assets:		
Invested in capital assets	1,423,180	1,282,913
Unrestricted	411,984	409,513
Total net assets	\$ 1,835,164	\$ 1,692,426

Major Factors affecting the statement of Net Assets

Total Assets for FYE 2005 are \$1,913,027 and at FYE 2006 the amount was \$1,766,548. This represents a decrease of \$146,479 for which the major reason was the addition to accumulated depreciation from \$2,977,628 in 2005 to \$3,140,344 for 2006.

Net Assets declined by \$138,905 from 2005 to 2006 with the reason being accumulated depreciation. The positive note from the decline was the unrestricted net assets only decreased by \$2,471.

St. Louis Housing Commission's Change in Net Assets

	Business-type Activities	
	2005	2006
Revenues:		
Public housing rental	\$ 148,375	\$ 143,459
HUD operating subsidy	739,109	744,236
HUD capital fund	113,682	7,713
Other	3,139	1,849
Unrestricted investment earnings	4,307	7,486
Total revenues	1,008,612	904,743
Expenses:		
Administration	161,131	157,828
Tenant services	511	55
Utilities	75,278	86,373
Maintenance	128,392	139,264
Housing assistance payments	490,656	436,891
Depreciation	164,666	169,043
Miscellaneous	23,014	54,194
Total expenses	1,043,648	1,043,648
Change in net assets	(35,036)	(138,905)
Net assets, beginning of year, as restated	1,870,200	1,831,331
Net assets, end of year	\$ 1,835,164	\$ 1,692,426

The major impact to revenues for 2006 was the decrease in the amount of capital funds utilized during the year.

Overview of Financial Statements

The MD&A is specifically designed to: 1.) assist the reader in focusing on significant financial issues; 2.) provide a broad scope overview of the Housing Commission's financial activities; 3.) identify and explain changes in the Housing Commission's financial position from 2005 to 2006; and 4.) highlight any individual funding source issues or concerns. This report also contains other supplemental information in addition to the basic financial statements themselves demonstrating how projects funded by HUD have been completed.

This MD&A is intended to serve as an introduction to the Housing Commission's basic financial statements. The Housing Commission is a blended component unit of the City of St. Louis, engaged in business-type activities. Accordingly, only fund financial statements are presented as the basic financial statements, comprised of two components: (a) fund financial statements and (b) a series of notes to the financial statements. These provide information about the activities of the Housing Commission as a whole and present a longer-term view of the Housing Commission's finances.

Reporting On The Housing Commission As A Whole

One of the most important questions asked about the Commission's finances are, "Is the Housing Commission as a whole better off, or worse off, as a result of the achievements of fiscal year 2006?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Housing Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Fund Financial Statements

All of the funds of the Housing Commission are reported as proprietary funds. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Housing Commission, like other enterprises operated by state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Housing Commission's financial statements report its net assets and changes in them. One can think of the Housing Commission's net assets - the difference between assets and liabilities - as one way to measure the Commission's financial health, or financial position. Over time, increases and decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. One will need to consider other non-financial factors, however, such as the changes in the Commission's occupancy levels or its legal obligations to HUD, to assess the overall health of the Housing Commission.

Annual Report Using This

The Housing Commission's annual report consists of financial statements that show combined information about the Housing Commission's most significant funds, the Low Rent Housing Program, Section 8 Housing Choice Voucher Program and Public Housing Capital Fund Program.

The Housing Commission auditors provided assurance in their independent auditors' report, located immediately preceding the MD&A, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

Reporting The Housing Commission's Most Significant Funds

The Housing Commission's financial statements provide detailed information about the most significant funds. Some funds are required to be established by the Department of Housing and Urban Development (HUD). However, the Housing Commission establishes other funds to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using grants and other money.

The Housing Commission's enterprise funds use the following accounting approach for Proprietary funds. All of the Housing Commission's services are reported in enterprise funds. The focus of proprietary funds is on income measurement, which, together with the maintenance of net assets, is an important financial indicator. The statements evaluated include:

- Statement of Net Assets – reports the Housing Commission's current financial resources (short term spendable resources) with capital assets and long-term debt obligations.
- Statement of Revenues, Expenses, and Changes in Fund Net Assets reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses.
- Statement of Cash Flows – reports the net change in cash and cash equivalents during the year, by operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The following analysis of the entity wide financial statement is provided to assist the reader of our financial statements.

The SLHC maintains its books and records utilizing the accrual basis of accounting. Accrual accounting recognizes revenues and expenses when earned regardless of when cash is received or paid.

The following is a description of the programs and services that the authority provides for the residents of the St. Louis Housing Commission:

Low Income Public Housing

The SLHC owns approximately 80 units in two developments in the City of St. Louis. The 80 units owned by the Commission consist of family units. The Commission is responsible for the management, maintenance and utilities for all units and sites. On an annual basis, the Commission submits a request for funding known as the Calculation of Operating Fund Subsidy. The basic concept of the Calculation of Operating Subsidy is that the Commission has an allowable Operating Expense Level, Allowable Utilities Expenses Level and Audit Costs that becomes the Commission's Total Allowable Expenses. HUD will fund the difference between the Total Allowable Expenses and the amount of rents that the Authority can charge their tenants based upon HUD eligibility calculation. The funds are utilized to provide safe, affordable, clean housing to the residents of the City of St. Louis, Michigan.

Section 8 Housing Choice Voucher Program

This grant program provides Housing Assistance Payments to Landlords who participate in the program. Qualifying tenants to the program have their income analyzed utilizing HUD's guidelines and their rents are assessed accordingly. The balance between the differences of the allowable rent amount set by HUD and the tenant's contribution is equal to the Housing Assistance Payment.

Capital Fund Program

This grant program is awarded by HUD on an annual basis. The purposes of this grant are to maintain the physical improvements of the Commission's sites and the for administrative management to ensure those improvements are completed in the most effective and efficient manner. The Commission requisitions funds from HUD as the Commission expends funds.

Economic Factors

The Housing Commission's primarily dependent upon HUD for the funding of operations; therefore, the Housing Commission is affected more by Federal budget than by local economic conditions. The capital budgets for the 2007 fiscal year have already been submitted to HUD for approval and no major changes are expected.

The Capital fund programs are multiple year budgets and have remained relatively stable. Capital Funds are used for the modernization of public housing properties including administrative fees involved in the modernization.

Significant economic factors affecting the Commission are as follows:

- Federal funding provided by Congress to the Department of Housing and Urban Development.
- Local labor supply and demand, which can affect salary and wage rates.
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rent.
- Income Inflationary pressure on utility rates, supplies and other costs.

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the St. Louis Housing Commission Executive Director, 308 S. Delaware Street, PO Box 117, Saint Louis, Michigan 48880.

BASIC FINANCIAL STATEMENTS

ST. LOUIS HOUSING COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 467,839
Tenant accounts receivable, net	3,867
Accrued interest	24
Prepaid items	<u>11,905</u>

Total current assets 483,635

Capital assets:

Property and equipment, net	<u>1,282,913</u>
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Total assets 1,766,548

LIABILITIES

Current liabilities:

Accounts payable	10,381
Accrued compensated absences	13,807
Accrued liabilities	11,746
Due to other governmental units	2,526
Unearned revenue	1,471
Tenant security deposits	<u>12,221</u>

Total current liabilities 52,152

Non-current liabilities:

Accrued compensated absences	<u>21,970</u>
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Total liabilities 74,122

NET ASSETS

Invested in capital assets	1,282,913
Unrestricted	<u>409,513</u>

Total net assets \$ 1,692,426

The accompanying notes are an integral part of these financial statements

**ST. LOUIS HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

OPERATING REVENUES

Net tenant rental revenue	\$ 143,459
HUD capital grants	7,713
HUD operating subsidies	744,236
Other	<u>1,849</u>

Total operating revenues	<u>897,257</u>
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OPERATING EXPENSES

Administrative	157,828
Tenant services	55
Utilities	86,373
Ordinary maintenance and operation	139,264
General expenses	27,483
Extraordinary maintenance	22,233
Housing assistance payments	436,891
Bad debt expense	3,752
Depreciation	<u>169,043</u>

Total operating expenses	<u>1,042,922</u>
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Operating income (loss)	<u>(145,665)</u>
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NON-OPERATING REVENUE (EXPENSE)

Loss on sale of capital assets	(726)
Interest income	<u>7,486</u>

Total non-operating revenue (expense)	<u>6,760</u>
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Change in net assets	(138,905)
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Net assets, beginning of year, as restated	<u>1,831,331</u>
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Net assets, end of year	<u><u>\$ 1,692,426</u></u>
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The accompanying notes are an integral part of these financial statements

ST. LOUIS HOUSING COMMISSION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Public Housing Low Rent Program	Public Housing Capital Fund Program	Housing Choice Vouchers Program	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 228,470	\$ -	\$ 239,369	\$ 467,839
Tenant accounts receivable, net	8,193	-	-	8,193
Allowance for doubtful accounts	(4,326)	-	-	(4,326)
Accrued interest	-	-	24	24
Interprogram receivable	-	-	2,376	2,376
Prepaid expenses	11,905	-	-	11,905
Total current assets	244,242	-	241,769	486,011
Capital assets:				
Property and equipment, net	1,267,270	15,114	529	1,282,913
Total assets	1,511,512	15,114	242,298	1,768,924
LIABILITIES				
Current liabilities:				
Accounts payable	9,982	-	399	10,381
Accrued compensated absences	9,852	-	3,955	13,807
Accrued liabilities	11,746	-	-	11,746
Due to other governmental units	2,526	-	-	2,526
Interprogram payable	2,376	-	-	2,376
Unearned revenue	1,471	-	-	1,471
Tenant security deposits	12,221	-	-	12,221
Total current liabilities	50,174	-	4,354	54,528
Non-current liabilities				
Accrued compensated absences	16,312	-	5,658	21,970
Total liabilities	66,486	-	10,012	76,498
NET ASSETS				
Invested in capital assets	1,267,270	15,114	529	1,282,913
Unrestricted	177,756	-	231,757	409,513
Total net assets	\$ 1,445,026	\$ 15,114	\$ 232,286	\$ 1,692,426

The accompanying notes are an integral part of these financial statements

ST. LOUIS HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Public Housing Low Rent Program	Public Housing Capital Fund Program	Housing Choice Vouchers Program	Total
OPERATING REVENUE				
Net tenant rental revenue	\$ 143,459	\$ -	\$ -	\$ 143,459
HUD capital grants	-	7,713	-	7,713
HUD operating subsidies	157,021	23,455	563,760	744,236
Other	1,720	-	129	1,849
Total operating revenue	302,200	31,168	563,889	897,257
OPERATING EXPENSES				
Administrative	85,836	-	71,992	157,828
Tenant services	55	-	-	55
Utilities	86,373	-	-	86,373
Ordinary maintenance and operation	139,264	-	-	139,264
General expenses	26,104	-	1,379	27,483
Extraordinary maintenance	22,233	-	-	22,233
Housing assistance payments	-	-	436,891	436,891
Bad debt expense	3,752	-	-	3,752
Depreciation	166,380	1,394	1,269	169,043
Total operating expense	529,997	1,394	511,531	1,042,922
Operating income (loss)	(227,797)	29,774	52,358	(145,665)
NON-OPERATING REVENUE (EXPENSES)				
Loss on sale of capital assets	(726)	-	-	(726)
Interest income	6,926	-	560	7,486
Total non-operating revenue (expenses)	6,200	-	560	6,760
Income (loss) before transfers	(221,597)	29,774	52,918	(138,905)
Transfers in	23,455	-	-	23,455
Transfers out	-	(23,455)	-	(23,455)
Change in net assets	(198,142)	6,319	52,918	(138,905)
Net assets, beginning of year, as restated	1,643,168	8,795	179,368	1,831,331
Net assets, end of year	\$ 1,445,026	\$ 15,114	\$ 232,286	\$ 1,692,426

The accompanying notes are an integral part of these financial statements

ST. LOUIS HOUSING COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Public Housing Low Rent Program	Public Housing Capital Fund Program	Housing Choice Vouchers Program	Total
Cash flows from operating activities:				
Cash received from customers and others	\$ 302,296	\$ 31,168	\$ 567,946	\$ 901,410
Cash received from interfund services provided	2,376	-	-	2,376
Cash payments for interfund services used	(10,758)	(2,165)	(10,969)	(23,892)
Cash payments to employees	(83,808)	-	(75,425)	(159,233)
Cash payments to suppliers for goods and services	(284,541)	-	(438,207)	(722,748)
Net cash (used in) provided by operating activities	(74,435)	29,003	43,345	(2,087)
Cash flows from non-capital financing activities:				
Transfers in	23,455	-	-	23,455
Transfers out	-	(23,455)	-	(23,455)
Net cash provided by (used in) non-capital financing activities	23,455	(23,455)	-	-
Cash flows (used in) provided by capital and related financing activities:				
Acquisition of capital assets	-	(5,548)	-	(5,548)
Cash flows provided by investing activities:				
Interest received	6,926	-	560	7,486
Net increase (decrease) in cash and cash equivalents	(44,054)	-	43,905	(149)
Cash and cash equivalents, beginning of year	272,524	-	195,464	467,988
Cash and cash equivalents, end of year	\$ 228,470	\$ -	\$ 239,369	\$ 467,839
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (227,797)	\$ 29,774	\$ 52,358	\$ (145,665)
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Depreciation	166,380	1,394	1,269	169,043
(Increase) decrease in assets				
Accounts receivable	96	-	4,057	4,153
Due from other funds	(10,758)	-	(2,376)	(13,134)
Prepaid expenses	(298)	-	-	(298)
Increase (decrease) in liabilities				
Accounts payable	(6,043)	-	63	(5,980)
Accrued liabilities	2,028	-	(3,433)	(1,405)
Due to other funds	2,376	(2,165)	(8,593)	(8,382)
Deposits	(774)	-	-	(774)
Unearned revenue	355	-	-	355
Net cash (used in) provided by operating activities	\$ (74,435)	\$ 29,003	\$ 43,345	\$ (2,087)

The accompanying notes are an integral part of these financial statements

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

A. REPORTING ENTITY

The St. Louis Housing Commission (the “Commission”) is a blended component unit of the City of St. Louis, Michigan (the “City”) as defined by the Governmental Accounting Standards Board’s (GASB) Statement No. 14, The Financial Reporting Entity and Statement of Michigan Governmental Accounting and Auditing No. 5, which define the reporting of primary government and component unit activities. The basic criterion for being considered a component unit is the exercise of financial responsibility over such a unit by a primary government, the appointment of the unit’s governing board by a primary government, the designation of management by a primary government, or the ability to exert significant influence on the budget and operations of the unit by a primary government. As a result of being identified as a component unit, the Commission’s financial records have been included as a blended component unit in the financial statements of the City of St. Louis.

The Commission reports as a business-type activity, as defined by the Governmental Accounting Standards Board Statement No. 34, rather than issuing financial statements which focus on the accountability of individual funds.

These financial statements include all activities of the Commission, which include a Low Income Housing Program (80 units) and a Housing Choice Vouchers Program with (155 units). These programs receive subsidies and annual contributions from the Department of Housing and Urban Development (“HUD”).

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Commission are federal grants and charges to customers for services. Operating expenses include housing assistance payments, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

The government reports the following major proprietary funds:

The *public housing low rent program fund* accounts for the revenue and related operations of the Public and Indian Housing grant program.

The *public housing capital fund program fund* accounts for the revenue and related purchases of capital assets of the Public Housing Capital Fund grant program.

The *housing choice vouchers program fund* accounts for the revenue and related operations of the Section 8 Choice Vouchers grant program.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Commission has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. ASSETS AND LIABILITIES

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Commission considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables and payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Activity between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans).

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Due To Other Governmental Units

This account represents the amount due to the City for the payment in lieu of taxes.

Prepaid items

Certain payments made to vendors are for services applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$200 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Compensated Absences

The Commission records a liability for compensated absences for any employee with vacation or sick time which meets the requirements for recording of a liability.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

II. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

A reconciliation of cash and cash equivalents as shown in the financial statements to the Commission's deposits is as follows:

	<u>Total</u>
Statement of Net Assets Caption:	
Cash and cash equivalents	\$ <u>467,839</u>
Notes to Financial Statements:	
Bank deposits	\$ <u>467,839</u>

Investment and deposit risk:

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Commission has no investments for which ratings are required.

Custodial credit risk deposits. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$271,936 of the Commission's bank balance of \$471,936 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Statutory Authority:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Commission is authorized to designate depositories for Commission funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The Commission's deposits are in accordance with statutory authority.

B. CAPITAL ASSETS

A summary of capital assets is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 40,831	\$ -	\$ -	\$ 40,831
Capital assets, being depreciated				
Site improvements	797,165	-	-	797,165
Buildings	1,751,038	-	-	1,751,038
Building improvements	\$ 1,423,363	\$ 6,107	\$ -	\$ 1,429,470
Nondwelling structures	209,520	7,713	-	217,233
Dwelling equipment - nonexpendable	51,750	2,595	(2,469)	51,876

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Furniture and fixtures	<u>127,141</u>	<u>13,087</u>	<u>(4,584)</u>	<u>135,644</u>
Total capital assets being depreciated	<u>4,359,977</u>	<u>29,502</u>	<u>(7,053)</u>	<u>4,382,426</u>
Less accumulated depreciation				
Site improvements	(717,387)	(13,227)	-	(730,614)
Buildings	(982,345)	(45,170)	-	(1,027,515)
Building improvements	(1,016,144)	(89,685)	-	(1,105,829)
Nondwelling structures	(134,487)	(7,487)	-	(141,974)
Dwelling equipment - nonexpendable	(35,065)	(4,313)	2,263	(37,115)
Furniture and fixtures	<u>(92,200)</u>	<u>(9,161)</u>	<u>4,064</u>	<u>(97,297)</u>
Total accumulated depreciation	<u>(2,977,628)</u>	<u>(169,043)</u>	<u>6,327</u>	<u>(3,140,344)</u>
Total capital assets being depreciated, net	<u>1,382,349</u>	<u>(139,541)</u>	<u>(726)</u>	<u>1,242,082</u>
Net capital assets	<u>\$ 1,423,180</u>	<u>\$ (139,541)</u>	<u>\$ (726)</u>	<u>\$ 1,282,913</u>

C. INTERFUND RECEIVABLES , PAYABLES AND TRANSFERS

	Due From
	Public Housing
	Low Rent
Due To	
Housing Choice Vouchers Program	\$ <u>2,376</u>

The balance due between the funds is for reimbursement of expense paid for by the Housing Choice Vouchers Program that is for Public Housing Low Rent.

	Transfers To
	Public Housing
	Low Rent
Transfers From	
Public Housing Capital Fund Program	\$ <u>23,455</u>

The interfund transfer between the funds is the current year administration revenue earned in the Public Housing Capital Fund Program

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

D. COMPENSATED ABSENCES

The following is a summary of changes in accrued compensated absences for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Amounts Due Within One Year
Accrued compensated absences	\$ 33,353	\$ 8,910	\$ (6,486)	\$ 35,777	\$ 13,807

III. OTHER INFORMATION

A. DEFINED BENEFIT PENSION PLAN

Plan Description

The defined benefit pension plan is operated by the Municipal Employees Retirement System (MERS), which is an agent multiple-employer retirement system. MERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917 or by calling (800) 767-6377.

Funding Policy

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The Commission has responsibility for making actuarially determined contributions to the system. Participants may make voluntary contributions, however no employee contributions are required.

Annual Pension Costs

For the year ended June 30, 2006, the Commission's annual pension cost of \$22,842 for the plan was equal to the Commission's required contribution. During the fiscal year the Commission made additional contributions of \$13,000. The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2003 using the entry age normal cost method. The actuarial assumptions include (a) a rate of return on the

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

investment of present and future assets of 8.0% and, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five year period.

The Housing Commission's annual pension cost and net pension obligation to the plan for the current year were as follows:

Annual required contribution	\$ 22,842
Less: Interest on net pension asset	<u>(352)</u>
Annual pension cost	22,490
Contributions made	<u>35,842</u>
Increase in net pension asset	(13,352)
Net pension (asset), beginning of year	<u>-</u>
Net pension (asset), end of year	<u>\$ (13,352)</u>

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC) <u></u>	Percentage of APC Contributed <u></u>	Net Pension Asset <u></u>
6/30/04	\$20,377	100%	\$ 0
6/30/05	22,116	100	0
6/30/06	22,842	157	13,352

Schedule of Funding Progress

Actuarial Valuation of Payroll <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) -Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage Covered <u>(b-a/c)</u>
12/31/03	\$135,400	\$313,891	\$178,491	43%	\$129,733	138%
12/31/04	168,433	360,118	191,685	47	136,193	141%
12/31/05	203,354	404,608	201,254	50	140,767	143%

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

B. RISK MANAGEMENT

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission manages risk through the purchase of commercial insurance.

Liability, automotive, and property - The Commission is a member of the Municipal Underwriters of Michigan, which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The Commission is insured up to the following limits: Liability - \$ 1,000,000, automotive - \$1,000,000, property - \$5,722,000, subject to deductibles of \$0, \$100, and \$250, respectively. The Commission is not subject to supplemental premium assessments by the association.

C. CONCENTRATION

The Commission's operations are concentrated in the multifamily real estate market. In addition, the Commission operates in a heavily regulated environment. The operations of the Commission are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of state or federal legislature or an administrative change by HUD. Such changes may occur with little or inadequate funding to pay for the related costs, including additional administrative burden, to comply with a change.

D. FEDERAL GRANTS

The Commission has received several federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although no amounts have been claimed, such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The Commission believes such disallowances, if any, will be immaterial.

ST. LOUIS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

E. RESTATEMENT

During the year ended June 30, 2006, a prior period adjustment in the amount of \$3,833 was necessary to properly account for the overstatement of a receivable in the Public Housing Capital Fund Program, during the year ended June 30, 2005. The effect on the Public Housing Capital Fund Program net assets was as follows:

Net assets, beginning of year, as previously stated	\$ 183,201
Prior period adjustment	<u>(3,833)</u>
Net assets, beginning of year, as restated	<u>\$ 179,368</u>

* * * * *

SUPPLEMENTARY INFORMATION

ST. LOUIS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
JUNE 30, 2006

FDS Line Item No.		Public Housing Low Rent Program	Public Housing Capital Fund Program	Housing Choice Vouchers Program	Total
	ASSETS				
	Current assets				
111	Cash - unrestricted	\$ 228,470	\$ -	\$ 239,369	\$ 467,839
100	Total cash	228,470	-	239,369	467,839
	Receivables				
122	Accounts receivable - HUD other projects	-	-	-	-
126	Accounts receivable - Tenants - Dwelling rent	8,193	-	-	8,193
126.1	Allowance for doubtful accounts - dwelling rent	(4,326)	-	-	(4,326)
129	Accrued interest receivable	-	-	24	24
120	Total receivables	3,867	-	24	3,891
	Other current assets				
142	Prepaid expenses and other assets	11,905	-	-	11,905
144	Interprogram receivable	-	-	2,376	2,376
150	Total current assets	244,242	-	241,769	486,011
	Noncurrent assets				
161	Land	40,831	-	-	40,831
162	Buildings	3,381,233	16,508	-	3,397,741
163	Furniture, equipment & machinery - dwellings	51,876	-	-	51,876
164	Furniture, equipment & machinery - administration	116,697	-	18,947	135,644
165	Leasehold improvements	797,165	-	-	797,165
166	Accumulated depreciation	(3,120,532)	(1,394)	(18,418)	(3,140,344)
160	Total capital assets, net of accumulated depreciation	1,267,270	15,114	529	1,282,913
180	Total noncurrent assets	1,267,270	15,114	529	1,282,913
190	Total assets	\$ 1,511,512	\$ 15,114	\$ 242,298	\$ 1,768,924

ST. LOUIS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
JUNE 30, 2006

FDS Line Item No.		Public Housing Low Rent Program	Public Housing Capital Fund Program	Housing Choice Vouchers Program	Total
	LIABILITIES				
	Current liabilities				
312	Accounts payable	\$ 9,982	\$ -	\$ 399	\$ 10,381
321	Accrued wages	11,746	-	-	11,746
322	Accrued compensated absences	9,852	-	3,955	13,807
333	Due to other governmental units	2,526	-	-	2,526
341	Tenant security deposits	12,221	-	-	12,221
342	Deferred revenue	1,471	-	-	1,471
347	Intergovernmental payable	2,376	-	-	2,376
310	Total current liabilities	50,174	-	4,354	54,528
	Noncurrent liabilities				
354	Accrued compensated absences	16,312	-	5,658	21,970
350	Total noncurrent liabilities	16,312	-	5,658	21,970
300	Total liabilities	66,486	-	10,012	76,498
	Equity/net assets				
508.1	Invested in capital assets	1,267,270	15,114	529	1,282,913
512.1	Unrestricted	177,756	-	231,757	409,513
513	Total equity/net assets	1,445,026	15,114	232,286	1,692,426
600	Total liabilities and equity/net assets	\$ 1,511,512	\$ 15,114	\$ 242,298	\$ 1,768,924

**ST. LOUIS HOUSING COMMISSION
FINANCIAL DATA SECTION
FOR THE YEAR ENDED JUNE 30, 2006**

FDS Line Item No.		Public Housing Low Rent Program	Public Housing Capital Fund Program	Housing Choice Vouchers Program	Total
703	Net tenant rental revenue	\$ 141,355	\$ -	\$ -	\$ 141,355
704	Tenant revenue - other	2,104	-	-	2,104
705	Total tenant revenue	143,459	-	-	143,459
706	HUD PHA operating grants	157,021	23,455	563,760	744,236
706.1	Capital grants	-	7,713	-	7,713
711	Investment income	6,926	-	560	7,486
714	Fraud recovery	-	-	129	129
715	Other revenue	1,720	-	-	1,720
716	Gain/(loss) on sale of capital assets	(726)	-	-	(726)
700	Total revenue	308,400	31,168	564,449	904,017
	Operating expenses				
911	Administrative salaries	47,210	-	35,914	83,124
912	Auditing fees	4,085	-	600	4,685
914	Compensated absences	1,793	-	630	2,423
915	Employee benefit contributions - administrative	26,790	-	18,641	45,431
916	Other operating - administrative	11,836	-	17,437	29,273
924	Tenant services - other	55	-	-	55
931	Water	8,852	-	-	8,852
932	Electricity	17,834	-	-	17,834
933	Gas	56,287	-	-	56,287
938	Other utilities expense	3,400	-	-	3,400
941	Ordinary maintenance and operations - labor	60,875	-	-	60,875
942	Ordinary maintenance and operations - materials and other	23,681	-	-	23,681
943	Ordinary maintenance and operations - contract costs	21,335	-	-	21,335
945	Employee benefit contributions - ordinary maintenance	33,373	-	-	33,373
961	Insurance premiums	17,700	-	-	17,700
962	Other general expenses	-	-	149	149
963	Payments in lieu of taxes	2,526	-	-	2,526
964	Bad debt - tenant rents	3,752	-	-	3,752
968	Total operating expenses	341,384	-	73,371	414,755
970	Excess operating revenues over operating expenses	(32,984)	31,168	491,078	489,262
971	Extraordinary maintenance	22,233	-	-	22,233
973	Housing assistance payments	-	-	436,891	436,891
974	Depreciation	166,380	1,394	1,269	169,043
900	Total expenses	529,997	1,394	511,531	1,042,922
1001	Transfers in	23,455	-	-	23,455
1002	Transfers out	-	(23,455)	-	(23,455)
1010	Total other financing sources (uses)	23,455	(23,455)	-	-
1000	Excess (deficiency) of operating revenue over expenses	(198,142)	6,319	52,918	(138,905)
1103	Beginning of year equity	1,537,069	114,894	183,201	1,835,164
1104	Prior period adjustments, equity transfers and correction of errors	106,099	(106,099)	(3,833)	(3,833)
	End of year equity	\$ 1,445,026	\$ 15,114	\$ 232,286	\$ 1,692,426

SINGLE AUDIT SECTION

**ST. LOUIS HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>FEDERAL GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL AWARDS EXPENDED</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Public and Indian Housing	14.850	\$ 157,021
Section 8 Housing Choice Vouchers	14.871	563,760
Public Housing Capital Fund	14.872	<u>31,168</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 751,949</u>

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the St. Louis Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH
GOVERNMENT AUDITING STANDARDS**

August 9, 2006

Board of Directors
St. Louis Housing Commission
St. Louis, Michigan

We have audited the financial statements of the business-type activities and each major fund of St. Louis Housing Commission as of and for the year ended June 30, 2006, and have issued our report thereon dated August 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Louis Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Louis Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our

tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, the St. Louis City Council, The St. Louis Housing Commission and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

August 9, 2006

Board of Directors
St. Louis Housing Commission
St. Louis, Michigan

Compliance

We have audited the compliance of St. Louis Housing Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. St. Louis Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of St. Louis Housing Commission's management. Our responsibility is to express an opinion on St. Louis Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about St. Louis Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on St. Louis Housing Commission's compliance with those requirements.

In our opinion, St. Louis Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of St. Louis Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered St. Louis Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, the St. Louis City Council, The St. Louis Housing Commission and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

ST. LOUIS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal controls over financial reporting:
Material weakness(es) identified? _____ yes X no
Reportable condition(s) identified not
considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial
statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes X no
Reportable condition(s) identified not
considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance
for major programs: *Unqualified*

Any audit findings disclosed that are required to
be reported in accordance with Circular A-133,
Section 510(a)? _____ yes X no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers

ST. LOUIS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

PRIOR YEAR FINDINGS

None.